

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

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R 081115Z MAR 75

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 1601

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 1961

EXDIS

E.O. 11652: GDS

TAGS: CG, EFIN

SUBJ: ZAIRE FINANCIAL SITUATION: IMF

1. SUMMARY: IMF MISSION SUCCEEDED IN CONVINCING MOBUTU OF SERIOUSNESS FINANCIAL SITUATION, BUT MOBUTU HAS OPTED FOR DO-IT-YOURSELF FINANCIAL REFORM PROGRAM. HE IS COUNTING ON LARGE NEW LOANS PLUS IMF GOLD TRANCHE AND OIL FACILITY DRAWING TO SEE HIM THROUGH AT LEAST UNTIL AFTER NOV 24 10TH ANNIVERSARY OF SECOND REPUBLIC. END SUMMARY.

2. LAMBERTO DINI OF IMF BRIEFED ME MARCH 7 ON OUTCOME HIS TALKS WITH PRESIDENT MOBUTU. DINI WAS MOST HELPFUL AND APPEARED TO BE EXTREMELY FORTHCOMING BUT ONE MUST ASSUME THAT HE KEPT SOME THINGS BACK. REGULAR CONSULTATIVE MISSION HEADED BY RUSSO HAD FULL COOPERATION BANK OF ZAIRE AND SOME LESS USEFUL COOPERATION FROM REST GOZ. GOVERNOR SAMBWA AND DINI ARE OLD AND CLOSE FRIENDS AND CLEARLY CONCERTED TOGETHER ON TACTICS FOR MEETINGS WITH MOBUTU.

3. GENERAL SITUATION WAS DISCUSSED WITH PRESIDENT, SUPPORTED BY DISENGIMANA, SAMBWA AND MINISTER OF FINANCE BOFOSSA, AND DINI SUPPORTED BY RUSSO MARCH 6 FOLLOWED BY LUNCHEON MEETING. REPORTEDLY ONLY DINI AND MOBUTU SAID ANYTHING. THEN DINI BREAKFASTED ALONE WITH MOBUTU MARCH 7.

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4. DINI TALKED FROM TABLE ON FINANCIAL SITUATION TO

IMPRESS UPON MOBUTU SERIOUSNESS OF SITUATION AND TO
OUTLINE TYPES OF MEASURES WHICH HE CONSIDERED TO BE
ESSENTIAL. HE STRESSED THE BASIC CAUSE OF PROBLEM
WAS RUN-AWAY BUDGET EXPENDITURES WHICH HAD INCREASED
BY OVER 70 PERCENT FROM '73 TO '74 WHILE ENTIRE 1974
DEFICIT EQUIVALENT OF \$414 MILLION WAS FINANCED BY BANK OF ZAIRE.
HE POINTED ALSO TO RAPID INCREASE OF DOMESTIC CREDIT AND
SUBSTANTIAL INCREASE IN EXTERNAL INDEBTEDNESS. HE
TOLD MOBUTU THAT IN HIS JUDGMENT GOZ BUDGET SHOULD BE
CUT BACK ONE-THIRD THIS YEAR OR BY 250 MILLION ZAIRES, (HE ACKNOW-
LEDGED TO ME THAT HE DID NOT THINK THIS POSSIBLE). THAT
TIGHT CREDIT POLICIES HAD TO BE FOLLOWED, PARTICULARLY
SINCE WITH GOVERNMENT TAKE-OVER OF MANY BUSINESSES CREDIT
EXTENSION WAS EQUIVALENT TO DEFICIT BUDGET FINANCING.
DINI ALSO TOLD PRESIDENT THAT HE HAD ACUTE CASH FLOW
PROBLEM COMPLICATED BY RISK OF DISRUPTION ENTIRE ECONOMY
AS RESULT VIRTUAL CESSATION OF ANY NEW IMPORT ORDERS SO
FAR THIS YEAR. HE APPARENTLY TOLD PRESIDENT THAT IMMEDIATE
CASH NEEDS WERE OF ORDER ONE BILLION DOLLARS WHICH HE
EXPLAINED TO ME AS BEING MADE UP \$600 MILLION
COMMERCIAL CREDITS OVERDRAFTS, \$200 MILLION TO REPLACE
IMPORT PIPELINE, AND THE REST ARREARAGES ON SERVICE
AND DEBT PAYMENTS. I THINK BILLION DOLLAR FIGURE
IS TOO HIGH AND WE WILL BE DEVELOPING OUR OWN MEASURE
OF CASH FINANCIAL GAP. HE TOLD PRESIDENT THAT IN
BEST OF CIRCUMSTANCES NEITHER IMF NOR ANYONE ELSE
WAS LIKELY TO BE ABLE TO PROVIDE THIS KIND OF FINANCING.
HE DID SAY, HOWEVER, THAT HE THOUGHT THAT GOVERNMENTS
AND BANKERS WOULD BE DISPOSED TO DO THE BEST THEY COULD
IN SUPPORT OF MEANINGFUL REFORM PROGRAM AND HE
SPECIFICALLY SAID HE UNDERSTOOD US WOULD WANT TO
PLAY POSITIVE ROLE.

XOV DINI, AFTER CONSULTING CLOSELY WITH SAMBWA,
DID NOT MENTION EXCHANGE RATE ADJUSTMENT PROBLEM TO
MOBUTU. HE TOOK SAMBWA'S ADVICE THAT TO DO SO WOULD
PROVOKE EXPLOSION AND ACCEPTED SAMBWA'S JUDGMENT THAT
PRESIDENT WOULD BE PREPARED TO ADJUST RATE TOWARD END
OF YEAR, I.E., AFTER 24 TH NOVEMBER CELEBRATION OF 10TH
ANNIVERSARY OF SECOND REPUBLIC. DINI ALSO REASONS
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THAT UNLESS FIRES FEEDING RAPIDLY ACCELERATING INFLATION
CAN BE CONTAINED, SUCH RATE ADJUSTMENT WON'T HELP MUCH.
THUS, HE SEES ECONOMIC CASE AS WELL AS POLITICAL
JUSTIFICATION FOR DELAY ON RATE ISSUE.

6. MOBUTU'S REACTION TO ALL THIS AT GENERAL MEETING
WAS EXPRESSION OF WARM GRATITUDE FOR ANALYSIS, ADMISSION
THAT HE WAS IN GOOD MEASURE RESPONSIBLE FOR SAD SITUATION,

AND CATEGORIC STATEMENT THE, HE, MOBUTU, WOULD TAKE NECESSARY ACTIONS TO CORRECT IT. "I'LL PERSONALLY REVIEW EVERY EXPENDITURE OVER 5 THOUSAND ZAIRES". HE SAID HE UNDERSTOOD WHAT WAS NEEDED AND WOULD IMPOSE RIGOROUSLY AUSTERITY PROGRAM WHICH WOULD RIGHT SITUATION WITHIN SIX MONTHS. HE EXPECTED OUTSIDE FINANCING AND SAID FORMER FINANCE MINISTER BARUTI HAD JUST NAILED DOWN LAST DETAILS ON \$50 MILLION ABU DHABI LOAN, TO BE DRAWN IN EQUAL TRANCES IN MARCH, APRIL AND MAY. HE SAID HE WOULD DRAW IMF GOLD TRANCHE AND SEEK TO DRAW UNDER IMF OOL FACILITY. HE WAS CERTAIN THIS WOULD GET HIM THROUGH. HE WOULD ALSO SLOW DOWN OR STOP ALL MAJOR PROJECTS EXCEPT INGA, INGA-SHABA TRANSMISSION LINE, GECAMINES EXPANSION, AND MULUKA STEEL WORKS. HE SAID THAT WITH THESE PROJECTS COMPLETED, PLUS GULF OFFSHORE OIL AND SMTF MOVING AHEAD, HEWOULD REACH 10TH ANNIVERSARY WITH SOLID RECORD OF ACHIEVEMENT. HE COULD THEREFORE FOREGO SUCH THINGS AS NEW TOURIST HOTELS, ETC. DINI AGREED WITH MY COMMENT THAT HE OUGHT TO STOP MALUKA STELL WORKS ALSO. MOBUTU ALSO PLEDGED THAT NATIONALIZED FIRMS WOULD HAVE TO PAY TEXES. IF THIS SOUNDS PECULIAR, IT IS NOT BECAUSE NEW DELEGUES GENERAL IN EFFORT TO MAKE THEIR BUSINESS MORE PROFITABLE HAVE BEEN ARGUING THAT NOW THAT STATE OWNED DISTRIBUTION CHAINS, IT WAS FOOLISH TO PAY TAXES. THERE WAS ALSO APPARENTLY SOME DISCUSSION OF DEBT RESCHEDULING WHILE I
UNDERSTOOD DINI TO SAY THIS WAS NOT LIKELY WITHOUT BETTER PROGRAM, I AM TOLD SEPARATELY THAT GOVERNOR OF BANK OF ZAIRE IS TELLING VISITING BANKERS THAT PACKAGE INCLUDES DEBT RESCHEDULING.

7. THERE WAS ALSO SOME DISCUSSION OF AGRICULTURE BUT I GATHER DINI, WHO HAD TOLD ME EARLIER HE WOULD PRESS FOR RATIONAL PRODUCER PRICE POLICY, DID NOT GET VERY FAR AND WAS PROBABLY SUBMERGED UNDER MOBUTU'S CONFIDENTIAL

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NONSENSICAL THETORIC ABOUT WORK BRIGADES AND COLLECTIVITIES, BUT HERE I AM DRAWING INFERENCES, NOT REPORTING.

8. AT BREAKFAST MEETING DINI SAYS HE WENT AT PROBLEMS EVER HARDER AND ADDED FIRM WARNING TO PRESIDENT THAT EVERYONE WHO HAD TOLD HIM SITUATION WAS NOT EXTREMELY SERIOUS WAS LIAR. MOBUTU EVIDENCED GREAT ANNOYANCE WITH ATTITUDE OF BANKERS, PARTICULARLY BELGIAN BANKERS, WHO HE SAID WERE BENT ON SABOTAGING HIM. DINI DISAGREED AND MADE CASE AS TO WHY BANKERS IN THIS KIND OF SITUATION HAD TO HOLD BACK FROM NEW COMMITMENTS. EITHER AT BREAKFAST MEETING OR IN GENERAL DISCUSSION OR AT BOTH, DINI COMMITTED HIMSELF TO MAKE CASE FOR DRAWING ON OIL FACILITY BUT HE TOLD PRESIDENT THAT US HAD

BEEN STRONGLY OPPOSED IN PRINCIPLE AND THAT UNLESS
USG WERE PERSUADED CHANCES WOULD BE POOR. DINI ASKED
ME IF I WOULD SUPPORT THIS AND I SAID I WOULD HAVE TO
THINK ABOUT IT. I REMARKED THAT DESPITE US POLICY
OBJECTIONS FACILITATED EXISTED BY AGREEMENT AMONGST
FUND MEMBERS, AGREED WITH HIM THAT THERE WAS
CASE TO BE MADE FOR ITS USE AND SAID THAT ONE
CONSIDERATION FAVORING USE WAS FACT THAT IN ZAIRE
OFFSHORE PRODUCTION WHICH WOULD COME ON STREAM
LATE THIS YEAR PROVIDING FOR LIKELY NET SELF-
SUFFICIENCY BY LATE '76 AND MEANS REPAYMENT WHILE
CLEARLY LIMITING TOTAL AMOUNT DRAWDOWN TO ONE-SHOT
OPERATION. THERE REMAINED, HOWEVER, QUESTION IN MY
MIND AS TO WHETHER OR NOT WITH INADEQUATE GOZ
PROGRAM AND DOUBTS ABOUT MOBUTU'S ABILITY TO CUT BACK
BUDGET DEFICIT, RESTRICT CREDIT, AND MANAGE AVAILABLE
FOREIGN EXCHANGE RATIONALLY, ONE WANTED TO
MAKE IT EASIER. I PROMISED HIM THAT I WOULD THINK
CAREFULLY, HOWEVER, AND I WILL BE MAKING RECOMMENDATIONS
SUBSEQUENTLY.

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W
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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 1602

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 1961

EXDIS

9. MOBUTU THEN APPARENTLY TOLD DINI IN STRICTEST
CONFIDENCE THAT BISENGIMANA WHILE IN EUROPE HAD
NEGOTIATED LETTER OF COMMITMENT FOR \$250 MILLION IN
EMERGENCY BALANCE OF PAYMENTS SUPPORT. I WOULD JUDGE,
HOWEVER, THAT THERE ARE LOSE ENDS ABOUT THIS AND DINI
SAID HE KNEW LITTLE ABOUT TERMS AND CONDITIONS
BUT HE EVINCED SOME WORRY ABOUT WHAT THEY MIGHT BE.

PRESIDENT ASKED DINI TO RETURN IN SEPTEMBER AND
POSSIBILITY ALSO EXISTS THAT HE MIGHT RETURN SOONER,
PARTICULARLY IF MOBUTU'S DO-IT-MYSELF PROGRAM FALTERS.

10. DINI ALSO TOLD ME, AND THIS IS A CLEAR PLUS,
THAT SAMBWA'S TEAM AND HIS EXPERTS HAVE DEVELOPED
FOREIGN EXCHANGE BUDGET WHICH HE THINKS PRESIDENT
MAY APPROVE AND THAT SAMBWA WANTS IMF TECHNICAL
HELP IN BANK OF ZAIRE WHICH HE HOPES BE ABLE
RECRUIT. HE GAGE ME DETAILED BANK OF ZAIRE BREAKDOWN OF
RECORDED DEBTS.

11. COMMENT: I HAVE THOUGHT THAT CONCEPTUALLY
THREE THINGS WERE NECESSARY TO SALVAGE SITUATION.
FIRST, THAT MOBUTU LISTENED AND COMPREHEND IMF MESSAGE.
SECOND, THAT HE AGREE TO TAKE NECESSARY ACTION,
COUNTERPART FOR WHICH I HAD THOUGHT WOULD BE IMF
PACKAGE INCLUDING STANDBY AGREEMENT LINKED TO POLICY
REFORM MEASURES HERE WHICH WOULD RESTORE CONFIDENCE
IN INTERNATIONAL FINANCIAL COMMUNITY AND PERMIT
GOVERNMENTS AND BANKS TO HELP IMF IN PROVIDING INTERIM
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FINANCING. THIRD, THAT SOMEHOW MOBUTU AND SHAKY
GOZ INSITUTIONS ACTUALLY CARRY OUT REFORM PROGRAMS.
AS I READ SITUATION TODAY, FIRST OBJECTIVE HAS BEEN
ACHIEVED AS WELL AS SMALL PART OF SECOND. MOBUTU
CLEARLY HAS PLEDGED HIMSELF TO CHANGE DIRECTION
BUT COURSE CHANGE SO FAR LOOKS AS IF IT IS INADEQUATE TO
DO JOB. HOWEVER, DINI APPARENTLY THINKS THAT BY
YEAR-END MOBUTU WILL BE PREPARED MOVE REST OF WAY
OR WILL HAVE DISCOVERED SOONER THAT HE CAN'T HACK IT ON
BASIS HE NOW ENVISAGES. IMF MISSION RESULT LOOKS A LOT BETTER
THAN OUR NIGHTMARE SCENARIO BUT NOT NEARLY GOOD
ENOUGH AND MUCH APPEARS TO DEPEND ON WHETHER
MOBUTU CAN INDEED CASH HIS \$250 MILLION ACE IN
THE HOLD.

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